LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 6749 | **DATE PREPARED:** Mar 22, 2002
BILL NUMBER: SB 228 | **BILL AMENDED:** Mar 14, 2002

SUBJECT: Prior Authorization of Drugs under Medicaid and CHIP.

FISCAL ANALYST: Alan Gossard
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FUNDS AFFECTED: **X GENERAL**
DEDICATED
X FEDERAL

IMPACT: State

Summary of Legislation: (CCR Amended) This bill requires the Children's Health Insurance Program (CHIP) Policy Board to study certain children's benefits.

This bill also allows the Office of Medicaid Policy and Planning (OMPP) to place limits on the quantities dispensed or the frequency of refills for any covered drug for the purpose of preventing fraud, abuse, waste, overutilization, or inappropriate utilization or to implement disease management. The bill prohibits OMPP from limiting the number of brand name prescription drugs a Medicaid or CHIP recipient may receive under the program.

The bill also establishes a therapeutics committee as a subcommittee of the Drug Utilization Review (DUR) Board and specifies committee membership and terms. The bill gives the DUR Board additional duties, including the research, development, and approval of a preferred drug list (PDL) for: (1) Medicaid's fee for service program; (2) Medicaid's Primary Care Case Management Program; and (3) CHIP's primary care case management component. The bill establishes procedures to follow for requiring prior authorization for drugs under the Medicaid and CHIP programs.

The bill also allows specified insurers to report to the DUR Board the number of child enrollees that are prescribed certain stimulant medications. It also adds to the Controlled Substance Advisory Committee a member with expertise in child and adolescent psychiatry and requires the Committee to report specified information to the DUR Board. The bill requires the DUR Board to report specified information concerning the prescribing of stimulant medication to children.

This bill also makes changes to the law concerning the Indiana Prescription Drug Account and the Indiana Prescription Drug Advisory Committee. The bill requires OMPP to apply for a federal Medicaid waiver to: (1)require enrollment in Medicaid's managed care program for recipients residing in certain counties excluding the aged, blind, and disabled; and (2) provide access to prescription drugs for low income senior citizens. The bill provides that money that was appropriated to the Prescription Drug Account in 2000 but was not placed in the account is appropriated to the account. The bill also requires OMPP to establish a point-of-sale system for the Prescription Drug Program before July 1, 2002.

This bill also repeals the continuous eligibility provision for a child under Medicaid and removes the provision from CHIP. It also makes other changes. (The introduced version of this bill was prepared by the Joint Commission on Medicaid Oversight.)

Effective Date: (CCR Amended) Upon passage; December 30, 2001 (Retroactive); July 1, 2002.

Explanation of State Expenditures: (Revised) *Preferred Drug List:* The bill establishes a Therapeutics Committee as a subcommittee of the DUR Board. The Committee and Board are to research, develop, and approve a preferred drug list (PDL) at least two times per year for Medicaid's fee-for-service, PCCM, and CHIP programs. Drugs on the list will not require prior authorization, while drugs not on the list is to be subject to prior authorization. OMPP has estimated a *maximum* potential annual expenditure reduction in the Medicaid program of $30 M in state dollars once fully implemented, depending upon what drugs are placed on the list, the therapeutic classes covered by the list, etc. Timing of any expenditure reductions will also depend upon the timing of implementation, with full-year expenditure reductions not likely to occur in the first year. Ultimately, the expenditure reductions will depend upon DUR Board and administrative actions.

Hoosier Rx Program/Tobacco Master Settlement Agreement Monies: The bill would also appropriate $15,516,618 from the Tobacco Master Settlement Agreement Fund. This amount is the balance of funds that were not moved to the Prescription Drug Account during the first year of operation. The original appropriation expired June 30, 2001. This provision restores the funding level originally appropriated for the Prescription Drug Account. The bill further specifies that money in the account does not revert to the Tobacco Master Settlement Agreement Fund but remains available for expenditure in the Indiana Prescription Drug Program (Hoosier Rx). The bill also allows the funds in the Prescription Drug Account to be used to leverage federal funds.

The bill authorizes OMPP to seek a Medicaid Section 1115 Waiver for a Prescription Drug Program. The availability of the Medicaid Prescription Drug waivers is a recent development, and the allowable parameters of the programs are not well defined. The bill also requires that any waiver program developed must limit the state share of the Medicaid waiver to the amount of funding appropriated to the Prescription Drug Program from the Tobacco Master Settlement Agreement Fund. This waiver could result in the receipt of additional federal Medicaid reimbursement.

The bill also specifies that the Hoosier Rx Program may limit access to prescription drugs under the waiver only to the extent that controls are in place in the Medicaid program as the enactment of this bill. The bill also requires that OMPP implement a program that provides the benefit at the point of sale rather than rebating the cost incurred as is currently done. According to OMPP, RFPs have already been obtained for the future implementation of this program change.

This bill would extend the expiration date for the Prescription Drug Advisory Committee by three years. (The Committee statutory authority expired on December 30, 2001, under current statute.) The Committee consists of 11 members appointed by the Governor and 4 non-voting legislative members. Expenses incurred by the members of the Committee are paid from the Indiana Prescription Drug Account which is appropriated from the Tobacco Master Settlement Agreement Fund.

Medicaid Provisions: The bill eliminates 12-month continuous eligibility under the Medicaid and CHIP programs. This is estimated to result in expenditure reductions of $8 M in FY 2003 in state dollars, with greater expenditure reductions in future years as the policy becomes fully phased in.

In addition, the bill prohibits OMPP from limiting the number of brand name prescription drugs a recipient may receive. This provision will prevent OMPP from implementing a rule to allow recipients a maximum of four brand name prescriptions per month. The rule would allow more brand name prescriptions only with prior authorization. This policy change, prohibited by this bill, was estimated by OMPP to result in $9 M (state share) in annual expenditure reductions.

The bill also contains several provisions that would have a relatively limited fiscal impact on the Medicaid program. These provisions include: (1) reporting requirements of the DUR Board to the Select Joint Commission on Medicaid Oversight regarding a PDL and the collection of data reflecting prescribing patterns related to the treatment of children diagnosed with attention deficit disorder and attention deficit hyperactivity disorder and on the prescription drug programs of managed care organizations participating in the Risk-Based Managed Care program; (2) a requirement that the Children's Health Policy Board study mental health and addiction services in the Children's Health Insurance Program (CHIP); and (3) a requirement that the DUR Board receive and review reports from the Controlled Substances Advisory Committee regarding the prescribing of stimulant medications with subsequent reporting to the specified entities. Although these would impact OMPP and the Children's Health Policy Board, the impact would largely be one of additional workload on current staff.

Expenditures in the Medicaid program are shared, with about 62% of program expenditures reimbursed by the federal government and 38% provided by the state. Expenditures in the CHIP program are reimbursed at an enhanced federal matching rate of about 73%.

Explanation of State Revenues: (Revised) The bill would allow for any drug rebates associated with the Hoosier Rx Program to be deposited in the Prescription Drug Account.

See also *Explanation of State Expenditures*, above, regarding federal reimbursements in the federal- and state-funded Medicaid program and in the CHIP program.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Family and Social Services Administration; OMPP.

Local Agencies Affected:

Information Sources: Melanie Bella, OMPP, 233-4455; *Circuit Breaker Property Tax Relief Program and Pharmaceutical Assistance Program, Annual Report for 2000*, Illinois Department of Revenue; Amy Brown, Legislative Liaison for FSSA, (317) 232-1149.